TRADE FOR DEVELOPMENT IN LATIN AMERICA AND THE CARIBBEAN

D. Lederman, W. Maloney, and W. Martin

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Trade for Development in Latin America and the Caribbean

D. Lederman, W. Maloney, and W. Martin
The World Bank

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I. Trade Liberalization: Where Does LAC Stand?

Progress, but some reversals in 1990s
Trade Reforms: Tariffs on Imports of Manufactures

Median Tariff (by Country)
## Trade Reforms: Non-Tariff Barriers Relatively Low

<table>
<thead>
<tr>
<th>Region</th>
<th>1989-94</th>
<th>1995-98</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia and Pacific</td>
<td>30.1</td>
<td>16.3</td>
</tr>
<tr>
<td>Latin America</td>
<td>18.3</td>
<td>8.0</td>
</tr>
<tr>
<td>Middle East/ North Africa</td>
<td>43.8</td>
<td>16.6</td>
</tr>
<tr>
<td>South Asia</td>
<td>57.0</td>
<td>58.3</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>26.0</td>
<td>10.4</td>
</tr>
</tbody>
</table>

But AD and CVD Cases—More Sinner than Sinned Against?

AD Initiations per Dollar of Imports 1995-2000 (USA=100)

Source: AD initiations: WTO; Imports: WDI
Preferential Trade Agreements

- The good.
  - Reciprocity: access and economies of scale.
  - Political economy effects in favor of liberalization.
- The bad.
  - Trade diversion: little aggregate evidence for LAC.
  - Emergence of “regional goods” and influential sectors: important in Mercosur.
  - Rules of origin: dilute reciprocity; transaction costs.
  - Technology transfer—who are you learning from?
Reversals: Are They Related to the Business Cycle and Macro Issues?
Trade Policy for Macro Management: Not the Appropriate Policy Tool

- Backsliding related to macro problems
- But, historically, not effective.
  - Rajapatirana (1998)- panel LAC
  - Argentina in 2001
- Political Economy Risks: can they be removed afterwards?
And hence on poverty

Positive Impacts on Growth

II. Impacts on Growth
Trade and Growth

• “Openness” correlated with growth in cross country regressions—with caveats
  - Rodríguez and Rodrik (2000) critique; Wacziarg (2001) counter-critique
  - No evidence of negative relation
  - LAC underperformed during ISI period
Golden Years of ISI:
LAC Under-performed

% growth of GDP p.c. (const USD)

High income: OECD
Latin America & Caribbean
LAC Median
Micro-Evidence Suggestive

**ERP 1965**

- Chile: ERP prevents 10/21 potential exporters (CEPLAN 1972)

**ERP 1997**

- Bias against exports still high
TL and Growth: Channels

- Diversification
  - Revitalize NR based sector
- Intra-industry trade
- Capital goods and investment
- Innovation
Trade Liberalization and Export Diversification in LAC
Trade Liberalization and IIT in LAC
Capital Goods Imports in LAC (Per Worker)

Capital goods include: power generating machinery, metalworking machinery, industrial machinery, specialized machinery, office, telecommunication equipment and other transport equipment, professional, scientific, optical machinery.

SITC 2 items 71 to 79 and 87 to 88.

Sources: Total workers: WDI; Imports: UN Comtrade
Continuing Natural Resource Based Exports: Opportunity...
... But Not Destiny

Mexico: Structure of Net Exports

- No evidence of curse
- International evidence: role of new endowments in determining trade patterns ...
**International Evidence: NRs Are Not Destiny**

<table>
<thead>
<tr>
<th>Comparative advantage in:</th>
<th>Share of Variance Explained by:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&quot;Conventional&quot; factors: crop land, forest land, and capital per worker</td>
<td>&quot;New&quot; factors: institutions, ICT, infrastructure, volatility, education, knowledge</td>
</tr>
<tr>
<td>Raw materials</td>
<td>0.35-0.78</td>
<td>0.19-0.62</td>
</tr>
<tr>
<td>Forest products</td>
<td>0.52-0.76</td>
<td>0.19-0.40</td>
</tr>
<tr>
<td>Tropical agricultural products</td>
<td>0.09-0.55</td>
<td>0.40-0.87</td>
</tr>
<tr>
<td>Animal products</td>
<td>0.11-0.35</td>
<td>0.65-0.89</td>
</tr>
<tr>
<td>Cereals</td>
<td>0.25-0.54</td>
<td>0.42-0.72</td>
</tr>
<tr>
<td>Labor intensive manuf.</td>
<td>0.15-0.35</td>
<td>0.62-0.83</td>
</tr>
<tr>
<td>Capital-intensive manuf.</td>
<td>0.02-0.12</td>
<td>0.86-0.96</td>
</tr>
<tr>
<td>Machinery</td>
<td>0.06-0.62</td>
<td>0.38-0.94</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.22-0.61</td>
<td>0.39-0.78</td>
</tr>
</tbody>
</table>
III. Impacts on Labor

Markets

Mixed, but on balance negative?
Inequality: Short-term Tradeoff?

[Graph showing economic indicators for Chile and Mexico, with years 1920 to 1995 on the x-axis and some economic metric on the y-axis, with two lines representing Chile and Mexico, respectively.]
Unemployment: Specific Groups Hurt, but Long Term Effect?

<table>
<thead>
<tr>
<th>Country</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
<th>Entire Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>4.1</td>
<td>4.8</td>
<td>11.6</td>
<td>6.9</td>
</tr>
<tr>
<td>Bolivia</td>
<td>6.3</td>
<td>7.7</td>
<td>4.8</td>
<td>6.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>6.6</td>
<td>5.4</td>
<td>5.4</td>
<td>5.7</td>
</tr>
<tr>
<td>Chile</td>
<td>10.5</td>
<td>14.4</td>
<td>7.0</td>
<td>10.7</td>
</tr>
<tr>
<td>Colombia</td>
<td>9.6</td>
<td>11.3</td>
<td>10.7</td>
<td>10.6</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>5.0</td>
<td>6.9</td>
<td>5.3</td>
<td>5.9</td>
</tr>
<tr>
<td>Guyana</td>
<td>0.5</td>
<td>0.3</td>
<td>n.a.</td>
<td>0.4</td>
</tr>
<tr>
<td>Honduras</td>
<td>n.a.</td>
<td>4.5</td>
<td>3.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Mexico</td>
<td>7.0</td>
<td>4.7</td>
<td>3.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Peru</td>
<td>7.4</td>
<td>7.4</td>
<td>8.5</td>
<td>7.7</td>
</tr>
<tr>
<td>Paraguay</td>
<td>7.3</td>
<td>11.8</td>
<td>14.2</td>
<td>10.7</td>
</tr>
<tr>
<td>Uruguay</td>
<td>9.2</td>
<td>10.6</td>
<td>9.8</td>
<td>9.9</td>
</tr>
<tr>
<td>Venezuela</td>
<td>5.7</td>
<td>8.8</td>
<td>9.7</td>
<td>8.0</td>
</tr>
<tr>
<td>LAC-Mean</td>
<td>6.6</td>
<td>7.6</td>
<td>7.9</td>
<td>7.0</td>
</tr>
<tr>
<td>LAC-Median</td>
<td>6.8</td>
<td>7.4</td>
<td>7.8</td>
<td>6.9</td>
</tr>
</tbody>
</table>

Most liberalized...lower unemployment
Not Globally...

Employment and Openness - 1998

No significant relationship

Unemployment rate (%)
And Wages Are Higher in More Exposed Sectors

Wages adjusted for human capital
By Tercile of Exports - Imports/Worker

High Imports
High Exports

Note: Non-agricultural workers, Conditional on human capital

Montes and Maloney 2001
TL Cannot Explain Rise of Informality:
Formality Is Higher in Tradeable Industries
(By Tercile of Exports-imports/worker)

Montes and Maloney 2001
Argentina: Movement Toward Informality Predates Trade Reform

Informality Rate for Salaried Workers in Greater Buenos Aires, 1980-1990

Gasparini 2000
Partly Reflect Macro-Evolution: NT booms in MX, AR, BR, CO

No Secular Trend

Fiess, Fugazza, Maloney 2001
IV. Forgotten Complements to Trade Reform

But it's not too late...
Yet We Acknowledge Forgotten (Domestic) Elements of Trade for Development

• Labor re-allocation and trade-adjustment assistance
• Capacity for technology adoption and innovation (knowledge clusters)
• Domestic infrastructure
• Domestic institutions
Trade Adjustment Assistance

- Economically efficient if designed well and politically smart
  - Compensation mechanisms for disadvantaged workers
- Probably no secular rise in insecurity
- But need comprehensive risk strategies
  - “Securing Our Future”
Technological Capacity Lags

- Weak adoption: TFP drives growth
- Key to successful NR exporters: Scandin. Aus.
- Knowledge, not product clusters, key
Domestic Infrastructure Lags

- Roads low for income level
- Inventory costs high
  - 20-30% GDP (Guasch)
- Restricts New CA
- Reduces wages
Domestic Institutions for Trade and Development Weak

V. Barriers to LAC Exports: 
The Role of Trade Negotiations
Tariff Peaks in the US and EU

Simple Average Applied MFN Tariff Rates by Sector (1999)

Key Areas: Agriculture, Textiles and Apparel
NAFTA Helped: US AD&CVD Cases Versus Mexico and the World

Anti-Dumping and Countervailing Duty Cases Initiated by the U.S. against Mexico
(Share of Total Actions)
Asymmetry in WTO Enforcement

- Magnitude of punishment is asymmetric
  - Disadvantage for countries with small markets
- Can there be collective punishment?
  - An issue of international governance ...
  - Collective enforcement.
- OECD has interest in institutional stability
  - Are precedents punishment enough?
VI. Summary

- TL: Progress but reversals in the 1990s
- Long-run outcomes are encouraging
- Need complem. policies and mkt access
- Important negotiation issues pending